

Autumn 2021
DePaul University

ECO 506 – Advanced Macroeconomics

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Special note: This syllabus is for the online hybrid format due to the pandemic.

Goal of this course: This course is intended to help you acquire a firm knowledge of modern macroeconomic theory and empirics. We explore key macroeconomic relationships and policy issues such as long-term economic growth, inflation, business cycle fluctuations (boom and recession), budget deficit and government debt, the practice of monetary and fiscal policies, and political economy. The course will provide a survey of important modern macroeconomic theories and empirics, including (i) long-term economic growth models, (ii) money and inflation, (iii) business cycle theory: from New Keynesian perspectives, (iv) monetary policy, (v) fiscal policy, budget deficits and political economy, and (vi) political business cycle.

What Students May Expect

This is a graduate course in macroeconomics. Thus, it is not an appropriate course for students who want some exposure to the modern macroeconomics. It will require sustained immersion in relevant economic theory and empirics.

Prerequisites

ECO 502 or ECO 306. More precisely, undergraduate intermediate macroeconomics (i.e., ECO 306) and some basic calculus should be sufficient.

Course Materials

The course does not follow any single textbook. For various topics, selected chapters from textbooks or articles will be basic reading materials. Importantly, lecture notes and handouts will be provided on a regular basis (posted in D2L).

That said, the following textbooks are useful references:

(1) Charles Jones and Dietrich Vollrath, Introduction to Economic Growth, 3rd edition, WW Norton, 2013 (a couple of chapters will be used for economic growth section of the course).

(2) David Romer, Advanced Macroeconomics, 4th edition, McGraw-Hill, 2012 (available on-line as pdf file).

(3) Obstfeld and Rogoff, Foundations of International Macroeconomics, MIT Press, 1996.

Course Requirements

It is very important to attend/watch lectures, since the materials covered in lectures form the core of the course.

There will be 3 requirements:

(1) A mid-term and a final exam: The midterm exam will be assigned on **October 12** and the final exam on **November 16**. Both exams will be take-home exams (i.e., open-book test). Please note that these dates are tentative and will be confirmed later.

(2) Problem sets (homework): There will be 4-5 problem sets. Problem set questions may be harder than the exams. Each problem set will be graded on a simple scale 0 (no submission) and 1 (submission).

Note that if a topic in the readings is omitted in class, then it is not exam-relevant. To put it differently, everything covered in class is exam-relevant, even if there is no reading assignment.

Grading: Final grade will be determined by the mid-term (40%), the final (40%), and problem sets (20%).

Grading Scale: A=94% and above; 88%≤A-<94%; 82%≤B+<88%; 77%≤B<82%; 72%≤B-<77%; 67%≤C+<72%; 63%≤C<67%; 59%≤C-<63%; 56%≤D+<59%; 53%≤D<56%; 50%≤D-<53%; and F<50%.

General policy

You should be aware of and abide by the University's policy on academic integrity (<http://academicintegrity.depaul.edu>). Also, the instructor reserves the right to change the topics or schedules if necessary.

Makeup Exams

In cases of severe illness or other extreme circumstances, a student may request a makeup exam. You must inform me of and obtain permission for the absence prior to the exam time, and provide appropriate documentation. I reserve the right to investigate the legitimacy of the request and to assess a grade penalty, or to award a grade of zero if proper procedure is not followed.

Desire2Learn (D2L)

All class material will be posted on D2L (<https://d2l.depaul.edu/>). All communication will be through D2L, although I will make announcements in class and occasionally send emails as needed. "I DIDN'T CHECK D2L" will not be a valid excuse for missing announcements or assignments

Special Notice on Online Class, Discussions, and Emails

(1) The course will be delivered as "hybrid" online, which is combination of asynchronous and synchronous lectures.

(a) Synchronous part: We will meet up virtually for 90 minutes at a set time and days, as you would do with live ZOOM. The following Tuesdays at 5:45-7:15pm: **September 14, 21, and 28; October 5, 12, 19, and 26, and November 2, 9, and 16 (see Schedule next page).**

(b) Asynchronous part: I will deliver the remaining 90-minute portion of one 3-hour lecture via pre-recorded format (which would be posted in D2L).

To sum up, there will be one 3-hour lecture each week, with a 90 minute synchronous meeting every Tuesdays and the rest delivered via pre-recorded video.

(2) To facilitate individual students' questions and concerns, I will hold a virtual office hour so that we can connect in real time via live ZOOM.

(3) Both midterm and final exams will be take-home exams (open-book test). Further details will be provided in advance before the exam is assigned and posted in D2L.

(4) In addition to my recorded lecture (which will be the main medium of delivering the lecture), I will post the regular lecture slides (that I usually use for face-to-face lecture in classroom) in D2L.

(5) Check the D2L frequently, especially "news items" and "contents", where I post new announcement and class materials for the class, respectively.

D2L will be key source of information about the class and course materials.

Also, I will write emails to the class as well.

(6) Please read the Zoom instruction to make yourself familiar with it so that it comes handy whenever you need it.

(7) Importantly, for general questions about the lecture materials and others, you are encouraged to use "Discussions" in D2L, while reserving the email correspondences only for discussions of personal matters/concerns.

TENTATIVE SCHEDULE

(The following schedule is only tentative and may have to be modified if necessary.)

Sept 14: Economic Growth

Sept 21: Economic Growth (continued). Problem set 1 will be assigned.

Sept 28: Economic Growth (continued). Problem set 1 is due. Problem set 2 will be assigned.

Oct 5: Money and Inflation, and Business Cycle Theory. Problem set 2 is due.

Oct 12: Midterm take-home exam will be assigned. Business Cycle Theory (continued).

Oct 19: Business Cycle Theory

Oct 26: Monetary Policy. Problem set 3 will be assigned.

Nov 2: Monetary Policy (continued). Problem set 3 is due.

Nov 9: Fiscal Policy, Budget Deficits and Political Economy (continued). Problem set 4 will be assigned.

Nov 16: Fiscal Policy, Budget Deficits and Political Economy (and if time permits, Political Business Cycle). Problem set 4 is due.

Nov 16: Final take-home exam will be assigned (to be confirmed)

Nov 23: Final take-home exam will be due

Reading List (* indicates important readings)

Pandemic Crisis and U.S. and Global Economic Outlook

[“Federal Reserve issues FOMC statement,”](#) Federal Reserve Board, July 27-28, 2021, and Quarterly Economic Projections on June 16, 2021.

[“Recent Economic and Financial Developments,”](#) Monetary Policy Report to The Congress by the Federal Reserve Board, July, 2021.

[“Federal Reserve Announces Extensive New Measures to Support the Economy,”](#) Federal Reserve Board, March 23, 2020.

1. Economic Growth

* Review of Mathematics and Statistics: *Handout*.

A. The Solow Growth Model

Handout on the Solow Model and Its Problem.

* Jones text, [Chapters 2 and 3](#).

* Gregory Mankiw, David Romer and David N. Weil (1992), [“A Contribution to the Empirics of Economic Growth,”](#) Quarterly Journal of Economics, May, 107:407-437. (Try to read pp.407-421.)

Dani Rodrik (2013), [“Unconditional Convergence in Manufacturing,”](#) Quarterly Journal of Economics, 128 (1): 165-204.

Michael Kremer, Jack Willis and Yang You (2021), [“Converging to Convergence,”](#) NBEA Macroeconomics Annual 2021, volume 36.

B. New Growth Theory: endogenous growth, R&D and externality.

* Jones text, [Chapters 5 and 9](#).

Robert Barro and Xavier Sala-i-Martin (2004), “Chapter 4. One-Sector Models of Endogenous Growth,” In *Economic Growth*, New York: McGraw-Hill.

* Charles Jones (1999), [“Growth: With or Without Scale Effects?”](#) American Economic Review Papers and Proceedings, May, vol. 89.

Royal Swedish Academy of Sciences (2018), [“Scientific Background: Economic growth, technological change, and climate change,”](#) (2018 Nobel prize was awarded to Paul Romer, and this article summarizes his contribution to Endogenous Growth Theory).

D. Empirical Growth Literature

Lecture note on Empirical Growth Literature.

Robert J. Barro (1991), "[Economic Growth in a Cross Section of Countries](#)," Quarterly Journal of Economics, Vol. 106, No. 2. May, pp. 407-443.

Charles Jones (2016), "[The Facts of Growth](#)," in the [Handbook of Macroeconomics](#).

- Trade Openness and Growth

Jeffrey Frankel and David Romer (1999), "[Does Trade Cause Growth?](#)" American Economic Review, Vol. 89, No. 3, pp. 379-399.

- Government Institutions

Robert Hall and Charles I. Jones (1999) "[Why Do Some Countries Produce So Much More Output per Worker than Others?](#)," Quarterly Journal of Economics 114:83-116.

Daron Acemoglu, Simon Johnson, and James A. Robinson (2001), "[The Colonial Origins of Comparative Development: An Empirical Investigation](#)," American Economic Review, December, Vol. 91, pp. 1369-1401.

Edward Glaeser, Rafael La Porta, Florencio-Lopez-de-Silanes and Andrei Schleifer (2004), "[Do Institutions Cause Growth?](#)" Journal of Economic Growth.

- Social Polarization: Income Inequality and Ethnic Fractionalization

William Easterly and Ross Levine (1997), "[Africa's Growth Tragedy: Policies and Ethnic Divisions](#)," Quarterly Journal of Economics, 112, No. 4.

Jaejoon Woo (2005), "[Social Polarization, Fiscal Instability, and Growth](#)," European Economic Review, 49(6), August: 1451-1477.

2. Money and Inflation

A. Money supply and Inflation

Lecture note on Money and Inflation.

* Romer text, [Sections 11.1 and 11.2](#).

B. Seigniorage and Hyperinflation

Lecture note on Budget Deficits and Hyperinflation.

* Romer text, [Section 11.9](#).

3. Business Cycle Theory: From New Keynesian Perspectives

A. Aggregate Demand

Lecture note on Aggregate Demand and Monetary Transmission Channel.

*Romer text, [Section 6.1](#).

Òscar Jordà, Moritz Schularick, and Alan M. Taylor (2017), "[Monetary Policy Medicine: Large Effects from Small Doses?](#)" FRBSF Economic Letter, Apr 3, 2017.

Ben S. Bernanke (2018), "[The Real Effects of the Financial Crisis](#)," Brookings Papers on Economic Activity.

B. Credit Channel (Time Permitting)

Ben S. Bernanke and Allan Blinder (1988), "[Credit, Money and Aggregate Demand](#)," American Economic Review 78, May: 435-439.

C. Aggregate Supply, Expectations, and Microfoundation

Lecture note on Expectation-augmented Phillips Curve

Romer text, [Sections 6.2 and 6.4](#).

- **Lucas Supply Function: Imperfect Information (New Classical Perspective)**

*Romer text, [Sections 6.9–6.10](#).

- **Imperfect Market Competition, Menu cost, and Sticky Prices (New Keynesian Perspective)**

Lecture note on New Keynesian Models of Sticky Prices.

Romer text, [Sections 7.1–7.3](#).

Gregory Mankiw and Ricardo Reis (2002), "[Sticky Information Versus Sticky Prices: A Proposal to Replace the New Keynesian Phillips Curve](#)," Quarterly Journal of Economics.

George Akerlof (2002), "[Nobel Lecture: Behavioral Macroeconomics and Macroeconomic Behavior](#)," American Economic Review, June.

- **Theory of Unemployment (Time Permitting)**

Lecture note on Shapiro and Stiglitz's Efficiency Wage Model.

Romer text, [Section 10.2](#).

D. Post-Crisis Slowing Growth or Secular Stagnation?

Ben Bernanke (2015), "[Why Are Interest Rates So Low?](#)", Brookings Institute, Blog, Mar 30 and 31, Apr 1 and 13, 2015.

John Williams (2017), "[The Global Growth Slump: Causes and Consequences](#)", FRBSF Economic Letter, July 3, 2017.

Coen Teulings and Richard Baldwin (2014), "[Secular Stagnation: Facts, Causes and Cures](#)", CEPR, Aug 15, 2014.

4. Monetary Policy: Rule versus Discretion

A. Time Inconsistency and Credibility in Monetary Policy

* Obstfeld and Rogoff text, [Sections 9.5.1 – 9.5.2](#), pp.634-644.

B. The Conduct of Monetary Policy and Rules

- Taylor Rule and Inflation Targeting

Romer text, [Section 11.6](#).

John B. Taylor (1993), "[Discretion versus Policy Rules in Practice](#)," Carnegie-Rochester Conference Series on Public Policy, 39, North-Holland, 195-214, 1993.

Lars E.O. Svensson (1997), "[Inflation Forecast Targeting: Implementing and Monitoring Inflation Targets](#)," European Economic Review, 41(1997), 1111-1146.

- Unconventional Monetary Policy (QE, forward guidance, negative interest rates)

Ben Bernanke (2012), "[Lecture 3: The Federal Reserve's Response to the Financial Crisis](#)," March 27, 2012.

Ben Bernanke (2016), "[What Tools Does the Fed Have Left?](#)" Brookings Institute, Blog, Mar 18 and 24, Apr 11, 2016.

Marvin Goodfriend (2016), "[The Case for Unencumbering Interest Rate Policy at the Zero Bound](#)," Presented at a symposium sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming, August 2016.

Ben S. Bernanke (2017), "[Monetary Policy in a New Era](#)," Peterson Institute for International Economics, October.

5. Fiscal Policy, Budget Deficits and Political Economy

A. Fiscal Policy Impact on Economic Activity (Traditional Views Before Crisis)

* Martin Feldstein (2002), "[Comment: Is There a Role for Discretionary Fiscal Policy?](#)" Presented at a symposium sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming, August 2002.

Francesco Giavazzi, Tullio Jappelli and Marco Pagano (2000), "[Searching for Non-Linear Effects of Fiscal Policy: Evidence from Industrial and Developing Countries](#)," European Economic Review.

B. Fiscal Policy Impact on Economic Activity (Post-Crisis Views)

Martin Feldstein (2009), "[Rethinking the Role of Fiscal Policy](#)," American Economic Review Proceedings, May.

Manmohan Kumar and Jaejoon Woo (2010), "[Public Debt and Growth](#)," IMF Working paper, July 2010.

* Giancarlo Corsetti (2012), "[Has austerity gone too far?](#)" April 2, 2012.

Giancarlo Corsetti, Keith Kuester, André Meier, and Gernot J. Müller (2013), "[Sovereign Risk, Fiscal Policy, and Macroeconomic Stability](#)," Economic Journal, 213(566): F99-F132.

Christina Romer and David Romer (2018), "[Phillips Lecture – Why Some Times Are Different: Macroeconomic Policy and the Aftermath of Financial Crises](#)," *Economica*, 85: 1-40.

Valerie A. Ramey (2019), "[Ten Years after the Financial Crisis: What Have We Learned from the Renaissance in Fiscal Research?](#)" *Journal of Economic Perspectives*, 33(2): 89–114.

C. Ricardian Equivalence

* *Lecture note* on Ricardian Equivalence.

D. Tax-Smoothing

* Romer text, [Section 12.4](#).

E. Political Economics, Government Spending and Budget Deficits

Jaejoon Woo (2003), "[Economic, Institutional and Political Determinants of Public Deficits](#),"
Journal of Public Economics, 87 (3), March: 387-426.

Alberto Alesina and Andrea Passalacqua (2015), "[Political Economy of the Government Debt](#)," in
Handbook of Macroeconomics, Taylor J. and H. Uhlig, eds., NorthHolland, Amsterdam.

6. Political Business Cycle (Time Permitting)

* *Lecture note* on Political business cycle

Obstfeld and Rogoff text, [Section 9.5.3](#), pp.644-647.